



2013 Intellectual Property Advisory Committee Report

Legislative Member: Delegate Joe May (chair)

- ◆ In addition to the legislative members, the Advisory Committee was comprised of nine individuals appointed by JCOTS, the Office of the Attorney General, state institutions of higher education, intellectual property attorneys, and other interested parties.
- ◆ The Advisory Committee's primary task during the 2013 Interim was the review of two bills referred to JCOTS by the 2013 Session of the General Assembly.
 - HB 1738 (Ferrell) related to invention development contracts
 - HB 2064 (May) related to the Uniform Trade Secrets Act
- ◆ The Advisory Committee met three times, and engaged in in-depth discussions regarding each issue, as set forth below.

Invention Development Services

- ◆ HB 1738 (Ferrell) would amend provisions of the Code of Virginia related to the regulation of invention development services.
 - ◆ Invention development services are services offered by companies to entities who think they have a viable invention that they would like to market. Invention development services include the evaluation, perfection, marketing, brokering, or promoting of an invention. It does not include the services of an intellectual property attorney or a person registered to practice before the U.S. Patent and Trademark Office.
 - ◆ Supporters of the original legislation indicate that the invention development services industry is ripe with fraud. Current penalties for violation of the act are only \$3,000, which many companies might see as just a "cost to doing business." These companies prey
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on individuals who think they have invented the "next big thing," charge a fee for their services, and often produce little to no results for the inventor.

- ◆ The bill as introduced would require the contract with the customer to disclose the invention developer's success rate, and would raise the civil penalty for a violation of the act from \$3,000 to \$25,000 per violation.
- ◆ Concern was raised that providing information about a "success rate" might provide the invention developer with room for misleading customers.
- ◆ After discussion with the Office of the Attorney General's Consumer Protection Division, staff learned that the Attorney General has not brought any enforcement actions under these provisions of the Code, but the Consumer Protection Division has also not received any complaints about violations of the act.
- ◆ The proposed bill in front of JCOTS was not formally endorsed by the Advisory Committee, but was developed from the discussion at the meetings regarding the bill. The proposal would:
 - Require the contract to clearly state that it is a "fee-for-service" contract with no guarantees; require the invention developer to disclose the average amount of money spent per customer in developing the invention; and provide notice as to lodge a complaint with the Office of the Attorney General.
 - Raise the civil penalty per violation from \$3,000 to \$25,000 (as in the original bill).

Uniform Trade Secrets Act

- ◆ HB 2064 (May) would have amended the Virginia Uniform Trade Secret Act in an attempt to make Virginia a more attractive state in which to do business. The bill would have required enjoinder of misappropriation of a trade secret, and would have created a criminal penalty for misappropriation of trade secrets.
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- ◆ 47 out of the 50 states currently have adopted the Uniform Trade Secrets Act. After discussion, it was generally agreed that Virginia should not amend the Uniform Act and become "un-uniform" with the Act as developed by the Uniform Laws Commission. It was suggested that this might have the unintended consequence of making Virginia an undesirable jurisdiction for those involved in trade secret disputes.
 - ◆ Discussion of trade secrets generally led to other issues being raised. One concerns recent changes to federal law as to whether failure to disclose best mode negates a trade secret defense. Instead of attempting to change Virginia law to clarify this issue, and again running into the "un-uniform" issue, the Advisory Committee recommended asking the Uniform Laws Commission to review the Uniform Trade Secrets Act in light of recent federal changes to the law.
 - ◆ Another issue that emerged concerned the registration of trade secrets. It was suggested that if one were able to register a trade secret with the state, this could serve as a proof of the existence of a trade secret by a particular person on a particular date in trade secret litigation.
 - ◆ The State Corporation Commission currently registers trademarks; it was suggested that a similar process could be developed for trade secrets. Because trade secrets are, by their nature, secret, the actual content of the trade secret would not be made public, but there would be a general record of registration. The registration would not be required to assert a claim of a trade secret, but could be used as prima facie evidence in a Virginia court of the existence of a trade secret.
 - ◆ In order to avoid liability on the part of the state, the State Corporation would not retain actual record of the actual registered trade secret.
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- ◆ Not every member of the Advisory Committee supported the ideas set forth in the proposal. Some were concerned that the registration would not provide protection any greater than if the trade secret holder sought notarization of documents related to a trade secret. There were also concerns that because trade secrets are, by nature, closely held secrets, it was incongruous to encourage public notice of the existence of a trade secret (even if the details were not disclosed).